

How to assess the performance of your auditor

For charity trustees an external audit is a highly valuable process to provide assurance over the finances of their charity and the systems and controls that underpin appropriate financial stewardship.

But with very significant concerns now being raised regarding the quality of auditing in both the charity and commercial sector how can trustees be sure their auditors are doing a good job?

This guidance will help charities identify what they should expect from their auditors and provides a template for an annual performance assessment.

Legal / Regulatory Background

A statutory audit is a legal requirement for many charities, and the obligation to appoint an auditor is normally set out in the charity's constitution, such as its articles of association. The individuals responsible for making the appointment may be the trustees (or company directors if incorporated) or members, albeit often on the recommendation of charity management and a sub-committee such as the audit or finance committee. Often due to constitutional requirements the members will approve the appointment annually at an AGM and then delegate the agreement of audit fees to the directors.

There is seldom any formal requirement to consider the performance of an organisation's auditors, but clearly this is an important aspect related to the appointment process. The responsibility for this may ultimately lie with the board, but often the detailed considerations are undertaken by the charity's finance or audit committee, or other similar committee. Indeed, model terms of reference for such committees will often make reference to the review of auditor performance being a specific responsibility.

Why is reviewing auditor performance important?

As with any professional advice or services, trustees have a duty to consider if their audit services meet adequate standards and provide appropriate levels of assurance over the charity's financial affairs. Sector expertise and the specialist nature of charity auditing is evident in that the auditing profession is required to follow Practice Note 11, tailored guidance issued by the Financial Reporting Council. Additionally, there should be an expectation that high-quality audits provide added value.

Detailed guidance

Charities may undertake a review through an informal discussion, initiated when something has gone wrong, or periodic retendering of audit services, perhaps on a fixed term basis. Both may be an appropriate response but run the risk that either poor performance is not identified, or management time and resources are spent on a process that is not necessary.

An annual process, undertaken in a formal manner, is probably the best approach. It may unearth concerns that are not obvious or avoid the need for time consuming and costly tender processes when there are in fact no concerns about the audit relationship. Even where concerns exist, a formal process can help both parties agree an improved approach for the future.

This guide provides a structure to assist organisations to adopt a formal approach to the assessment of auditors' performance. There may be specific criteria that are essential for your organisation's audit requirement, but

typically key criteria fall into three areas: ability, performance, and engagement.

Charities can use these 3 criteria shown below as the basis for their review. Alternatively, the performance checklist set out on the next page provides a formal template for an annual review process.

Ability

Demonstrate sector experience at sufficient depth; understanding of, and commitment to professional and quality standards established by the accounting profession and the audit firm; commitment to training in specialist areas; adequacy of resourcing; relevant quantifiable experience of all members of the team.

Performance

Efficiency and effectiveness of the planning, execution, and completion of the audit; professionalism of the audit team; adherence to ethical standards and actively demonstrated independence; strong project management and timeliness of service.

Engagement

Active engagement with charity staff, management and "those charged with governance" (which may include committees such as audit or finance, as well as the full trustee board); good written and face-to-face communication; demonstrable value derived from the relationship.

Auditors' Key Performance Indicators

We consider it to be good practice for our clients to set indicators with which to judge our performance as external auditors. We set out below key performance indicators that you may wish to consider adopting for the future. These questions are indicative only as it is important for each charity to determine their key performance criteria that are most relevant to their situation. References we make to the charity's audit committee should be interpreted as the body responsible for overseeing the relationship with the auditors, so may instead be the board, finance committee, or similar.

Please indicate your satisfaction rating by placing an answer in the relevant box alongside each question.

1 Ability	Y / N / N/A	Comments
<p>1. Has the auditor provided information about its professional ethics policies and processes for maintaining independence, and has this covered:</p> <p>a) Potential threats to independence including any other services provided to the charity?</p> <p>b) Safeguards established to maintain independence and objectivity?</p>		<p>Auditors must comply with the general professional ethics of their institutes, as well as specific requirements of the Ethical Standard for Auditors.</p>
<p>2. Did the audit team comprise staff of sufficient seniority, experience and expertise?</p>		<p>All members of the audit team, not only the partner and manager need to have appropriate credentials to identify key audit matters.</p>
<p>3. Was there appropriate staff continuity from previous visits?</p>		<p>Most firms will want to offer continuity but there should be a balance with the need for auditors to have a fresh perspective and recognising career progression means roles change.</p>
<p>4. Did members of the audit team have an appropriate knowledge and understanding of:</p> <p>a) The charity sector</p> <p>b) Its accounting and reporting requirements including the Charities Statement of Recommended Practice (SORP), accounting regulations and Charities Act 2011</p> <p>c) The charity regulatory framework, including Charity Commission guidance, governance, taxation, ect.</p>		<p>Assurance over the sector understanding of the audit team will be demonstrated by their areas of focus and the type of issues they raise.</p>
<p>5. Did the audit team demonstrate good technical competence (e.g. accounting, audit, business risks)?</p>		
2 Performance	Y / N / N/A	Comments
<p>6. Was the audit work planned with charity management in a timely and appropriate way?</p>		<p>There should be a reasonable time between audit planning and execution and clearly set out mutual expectations of both the charity and the audit team.</p>
<p>7. Was there appropriate liaison with the charity's other auditors (internal / group etc) where necessary?</p>		<p>Auditing Standards requires formal processes between the auditors and adequate assessment of the work performed in order for the reporting auditor to place reliance on the other auditor's work.</p>

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Performance (continued)

Y / N / N/A

Comments

8. Did the auditors communicate in their audit plan or otherwise to the Audit Committee and charity management sufficient time in advance of the start of the audit
- a) Their desire to enter into a two way discussion on audit matters?
 - b) Scope of the audit and the respective responsibilities of the auditors and the charity?
 - c) The audit approach and key areas of focus?
 - d) The approach to audit materiality adopted for the audit?
 - e) The timetable for the audit and for oral and written reports to the audit committee?
 - f) The extent of any reliance to be placed by the auditors on the work of others (e.g. internal auditors, group auditors, external specialists
 - g) Significant matters arising from previous audits?
 - h) The “deliverables” they expected the charity to provide the auditors and when this would be required?
 - i) The fees to be charged or the proposed basis of charges?

Auditing standards require that auditors communicate with their clients formally both before and after the main execution of the audit.

9. Was the audit work carried out on the agreed dates and to the agreed plan?

Auditors should adhere to their plan, and equally it helps their efficiency if the finance team do likewise.

10. Was the charity kept informed on a timely basis of any material issues arising during the course of the audit?

Whilst issues can arise at any time during the audit, often as review processes are undertaken, active communication during the audit should be expected. There should be an appropriate system established for this purpose

3

Engagement

Y / N / N/A

Comments

11. Was regular and timely two way communication on matters relevant to the audit encouraged?

12. Were written reports clear, concise and delivered on time?

Whilst Auditing Standards determine much of the content of audit communication, this should not be a barrier to clarity in matters arising from the audit.

13. Were significant or sensitive matters, on areas of potential disagreement, dealt with openly, constructively and professionally?

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Engagement (continued)

	Y / N / N/A	Comments
<p>14. Were the recommendations in management reports / audit findings:</p> <p>a) Discussed with charity management in an appropriate and timely manner?</p> <p>b) Considered constructive, practical, and viewed as adding value?</p>		
<p>15. Did the auditors keep management and the audit committee sufficiently up to date on key financial reporting, accounting and regulatory matters relevant to charity?</p>		<p>An understanding of the wider perspective in which the charity operates is a demonstration of the depth of sector understanding held by the auditors.</p>
<p>16. Where agreed, did the auditors attend Audit Committee meetings and deal with queries raised by the committee adequately?</p>		
<p>17. Where appropriate, did the auditors discuss with the Audit Committee any areas for improvement in their audit approach?</p>		
<p>18. Was there significant access to and contact with senior members of the audit team, including the partner and manager?</p>		
<p>19. If any audit report resulted in a qualified or modified opinion, were the issues of concern and the impact on the report discussed with charity management and the Audit Committee at a sufficiently early stage?</p>		<p>Timely discussions are important to ensure adequate consideration of any significant audit matters, for example whistleblowing to the Charity Commission and Serious Incident reporting.</p>
<p>20. Has there been a good working relationship between the auditors, charity management and the Audit Committee?</p>		
<p>22. Have charity staff provided positive feedback on the quality of the audit work and team?</p>		
<p>23. Was there sufficient contact during the year and were ad hoc queries during the year adequately dealt with in a timely manner?</p>		<p>Whilst there is no obligation for there to be contact with auditors throughout the year, the charity should be clear what it wants.</p>
<p>24. Were the auditor's fees in line with their original quote, or were there any additional charges? Were these communicated appropriately and on a timely basis?</p>		<p>Establishing what is a fair fee is hard to determine. The fee should be sufficient for an adequate level of work to be performed, but not excessive such that process efficiencies are not sought. Where additional charges are sought, is their adequate justification for these to be charged to the charity.</p>

3 Engagement (continued)	Y / N / N/A	Comments
25. Are these actions that the auditor should take to improve their performance?		
26. Is it recommended that the incumbent audit provider be reappointed for the forthcoming year?		

Name:

Date:

Title:

i How we can help

This template is designed for information purposes only. Whilst every effort has been made to provide accurate and up to date information, it is recommended that you consult us before taking or refraining from taking action based on matters discussed.



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